
Minutes

Board of Natural Resources Meeting

May 1, 2007
Natural Resources Building, Olympia, Washington

BOARD MEMBERS PRESENT

Doug Sutherland, Commissioner of Public Lands

Bob Nichols, for Governor Christine Gregoire

Jon C. Kaino, Commissioner, Pacific County

Daniel J. Bernardo, Dean, Washington State University, College of Agricultural, Human, and Natural Resource Sciences

Terry Bergeson, Superintendent of Public Instruction

Bruce Bare, Dean, University of Washington, College of Forest Resources

CALL TO ORDER

Chair Sutherland called the meeting to order at 9:10 a.m. on, May 1, 2007 in Room 172 of the Natural Resources Building.

APPROVAL OF MINUTES

MOTION: Jon Kaino moved to approve the April 3, 2007 Board of Natural Resources meeting minutes with grammatical corrections.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

PUBLIC COMMENTS FOR AGENDA ACTION ITEMS

Jefferson County Commissioner Phil Johnson provided the Board with his comments on the East Fork Tarboo cut. He shared what he feels are the unique characteristics of the area. He asked the Board to postpone the sale until the Washington Natural Heritage Advisory Committee has evaluated and decided on a boundary for the natural resources conservation area surrounding the bay.

Peter Bales submitted a previous letter from the Jefferson County Commissioners and a letter from himself, along with a map of the area to the Board members. He urged the Board to postpone the timber sale. He would like the Department to allow time for the Natural Heritage Program to complete their analysis.

Keith Dublanica, Skokomish Indian Tribe Natural Resources Director addressed the Board. Mr. Dublanica reviewed letters that were sent to the Board from the tribe, and the Hood Canal Coordinating Council regarding the East Fork Tarboo timber sale. The Tribe and the Hood Canal Coordinating Council are asking the Board to delay the harvest while a comprehensive examination is completed. They are requesting that an NAP or NRCA be considered for the landscape.

Ryan Dicks introduced himself to the Board. He is representing himself as a landowner in the Tarboo Creek basin. He and his wife purchased 47 acres of timber property in the area last year. He'd like the sale postponed while the evaluation is completed.

Bob Dick addressed the Board to offer his comments on the East Fork Tarboo timber sale. He feels there are no technical reasons why this sale should not move forward. He doesn't feel this stand meets the standard set for either an NAP or NRCA; he stated that there is nothing special or unique about this sale. In conclusion he stated that he understands why people live in these areas and the reasons why they want things to remain the same.

Terry Bergeson asked Mr. Dick to address his third comment

Mr. Dick stated that the public needs to be educated that these lands are managed for timber and that while they may change, they will keep growing trees, not Wal-Mart's, or housing developments

Terry Bergeson understands this to mean that the larger issue is how to get people to learn to live peacefully between working forests that are going to be cut and re-grown, and the other option which is to get rid of the land and have no timber industry.

Mr. Dick agreed and concluded by saying that he feels this is a symptom of a much bigger problem.

TIMBER SALES (Action Item)

Proposed Timber Sales for June 2007 (Handout 1)

Jon Tweedale came forward to present. He said there is a lack of supply which is causing temporary curtailments in the mill market due to a lack of supply. The Canadian provinces are most affected, as well as many in Washington State. The mills are adjusting their shifts accordingly. The B.C. log supply is tight causing log exports to the U.S. to be down. Red cedar is also in low supply. Mr. Tweedale feels the market will be strong for DNR timber over the next several years. He noted that the overseas markets are beginning to strengthen, creating a demand for manufactured products from Canada and the US going overseas for housing needs in China, Korea, & Japan. Washington State supply is important to our purchasers.

Terry Bergeson asked Jon to go back to the BC exports.

Jon explained that the BC private land log exports have weakened largely because the demand for those logs in Canada is up keeping them in B.C. for processing.

April 2007 Sales Results:

13 sales offered & 13 sold; 50.0 mmbf offered & 50.0 mmbf sold; \$10.9 million minimum bid & \$14.9 million sold; \$218/mbf offered & \$298/mbf sold; average number of bidders = 4.2; 36% above minimum bid.

Proposed June 2007 Board Sales:

20 sales at 78.5 mmbf; \$24.0 million minimum bid; average \$298/mbf. These sales will close out the fiscal year. Including these 20 sales we will have sold around 590 mmbf this year.

Terry Bergeson asked Mr. Tweedale to explain the term "up bid."

Jon explained that a minimum starting bid is established at auction. There will be bidders willing to pay more than the appraised value. The up bid is the difference between what the final sales price and the average appraised price.

Bruce Bare asked Jon to explain the difference between the April sale results on the slide with the spreadsheet in the packet.

Jon explained that if you refer to the sort sales on the back of the spreadsheet, you would add the two together to reach the total.

Bruce Bare asked Jon to further explain the spreadsheet.

Tom Heller addressed the Board to explain the scheme of reporting the sales. The one forest improvement sale is not included in the totals. The sort sales minimum bids are based on a delivered price which is not stumpage. He explained that the number on the front of the spreadsheet includes the sort sales at their delivered values; the numbers on the back correlate to their actual estimated stumpage value.

Jon Tweedale stated the he had asked Mr. Heller to arrive at a derived stumpage to make it more meaningful on the average. He is finding that the sort sales are becoming more successful and with the forest improvement treatments increasing, they are finding that they need to simplify and narrow it down to a single stumpage return until they get the final imputed stumpage return.

Bruce Bare asked for a further explanation of the log sale and stumpage values. He felt that it should not have been reported that way.

Mr. Tweedale stated that it is important to show the Board what they sold for after the approval.

Jon Kaino asked if it would be easier to take the number and subtract the contracting cost to reach the overall stumpage value.

Mr. Tweedale explained that those numbers are represented on the back of the spreadsheet and that he agreed that Jon's suggestion might be a better way to represent those figures.

Tom Heller reiterated that there are four columns with values; the two that show the minimum bid, and the actual bid for the delivered value will be converted to stumpage in the next two columns, bringing the stumpage value to the front.

Dan Bernardo asked what the philosophy for calculating the minimum bid is and how we will see that change as the markets increases.

Jon Tweedale stated that the philosophy is to use the most current information we have to establish true market value. There is a three month lag between when we get the current prices and when we bring it to the Board. When the market is going up we are behind the curve; in a downward market we are ahead of the curve. The philosophy is to try mirroring true market value using two types of valuation processes. One is called a residual value analysis which is essentially a profit and loss statement, taking the current revenue and current costs to arrive at the PNL margin. In appraising there are three methods that can be used, first is residual, second is a comparable approach market value, and third is an asset approach. The second approach is a comparable analysis looking at residual value and the comparable sales from past sales to arrive at the average. The up bid comes in as various dynamics such as market changes and the perception of purchasers come into play.

Dan Bernardo stated that we need to make sure that our minimum bids are as realistic as they can be. He asked if we can project the market better to get the bids closer to reality.

Jon Tweedale stated that he does long-term trend analysis in an effort to increase or decrease based on what the trends are. This industry is a cyclical industry that cycles in seven to nine years, which puts us in the middle of the seven year upward cycle.

Bruce Bare asked how we arrive at a fractional number of bidders for a sale.

Jon Tweedale explained that those are just the simple average of bidders.

Mr. Tweedale directed the Board back to the proposed June sales. He shared SEPA comment letters with the Board. Comments were received on sale #6 in Western Jefferson County with one letter from Olympic Forest Coalition expressing concerns about mass wasting in the riparian area. When we supplied them with the SEPA document we didn't have the mass wasting report; we provided them with the report before the final determination.

Terry Bergeson asked what a mass wasting report is.

Jon Tweedale stated that it is a landslide hazard assessment completed by our geotechnical staff. The Big Beaver received a comment from the Nisqually tribe biologist who was concerned about unstable soils. The region went onsite with the new tribal biologist and walked the sale; the biologist was happy with the layout of the sale.

We also received three formal SEPA letters specific to the East Tarboo timber sale; one letter from the Nature Conservancy, one letter from the Port Gamble S'Klallam tribe, and one from the Northwest Watershed Institute. There were also a number of letters associated with East Tarboo Dabob; one from a beneficiary, the local fire district in favor of the timber sale, and those that commented this morning.

Bob Nichols asked if the letters from the Nature Conservancy and the Tribe were part of the packet, and if we have that correspondence.

Mr. Tweedale stated that we have all the correspondence but those were not submitted specifically to the East Tarboo timber sale through the SEPA process. They were submitted in a general context of protecting the Dabob Bay, Tarboo Bay area. There is the bigger picture and the specific timber sale picture. Specific to the timber sale there were only three letters that came in through the formal SEPA process, which are the ones that he shared.

Mr. Nichols asked if this sale is within the context of the broader discussion.

Jon Tweedale confirmed that it is. He also explained that when they receive those types of letters they don't get recorded as SEPA, but they respond to them the same as any SEPA letter.

Terry Bergeson reiterated that the three letters were on the larger issues not the problem issues.

Mr. Tweedale explained that the three letters are on the small issue which is the East Tarboo timber sale, and the twenty letters that Mr. Nichols referred to are on the larger issue.

Jon Tweedale moved on to the presentation addressing the East Fork Tarboo Sale objectives.

Chair Sutherland introduced region staff members Anna Shafer and Mark Benner to the Board. Mark is the forester that developed and defined this sale. Anna is a geologist and has been working on the site addressing the steep slopes. They provided the Commissioner with a walk through of the sale, addressed how the sale was developed, and reviewed the critical and important issues.

Mark Benner introduced himself as the timber sales forester for the sale; he reviewed the sale objectives with the Board.

- Generate revenue for the State Forest Board
- Protect water quality and aquatic habitat - there are streams on site that are type two waters, fish bearing, also type four and five waters
- Maintain slope stability and soil productivity – some potentially unstable slopes were identified so one objective is to maintain slope stability
- Protect forest wetlands – there are two small forest wetlands less than a quarter acre each; they are protected in the sale design

- Maintain trees of unique structural characteristics with high wildlife value – an onsite assessment was done to identify any in the landscape
- Develop an efficient road system that will minimize long term road impacts.

Mr. Benner addressed each of these in the context of attempting to meet the objectives of the Habitat Conservation Plan (HCP). The sale is located in East Jefferson County south of Port Townsend and northeast of the town of Quilcene. The proposal is positioned approximately ¼ mile north of the head of Tarboo Bay, and over ½ mile north of the Dabob Natural Area Preserve. The general surrounding land use is one of developing rural residential use and commercial forest lands. There is an area of exclusion from the timber sale for the protection of unstable slopes.

Mr. Benner reviewed the logging plan map of the proposal and how it meets the sale objectives:

- 2,724 mbf with an estimated value of \$1,090,000.00
- 14 acres of Riparian Management Zones (RMZ's)
- 9 acres (beyond RMZ widths) of exclusion for potentially unstable slopes
- 3 acres of leave tree areas protecting forested wetlands and snags, plus an additional 152 individually scattered leave trees which are 90 year age class Douglas Fir, with a few between 90 to 100, to 120. There are 12 true older trees
- 2,110 feet of temporary road to be abandoned with the sale
- 28% of the proposal acreage will not be harvested to provide environmental protection

Examples of similar HCP sales are:

- The Golden Goat HCP sale which consisted of 31 acres of partial cut to protect potentially unstable slopes on a tributary to East Fork Tarboo. The sale includes some leave tree clumps and an RMZ that was established on a small stream.
- North Urch which sits on the east side of the tributary. This sale exemplifies leave tree clumps, a large complex of wetlands and streams that were removed from the sale, an unstable slope area, and an RMZ on the stream.

DISCUSSION:

Mr. Benner advised the Board that a geotechnical assessment and a geotechnical report were developed for the timber sale. Three deep-seated landslide features were identified near the sale. Sites one and two exhibit some small deep-seated features that were excluded from the sale. The larger feature to the northeast is exterior to the sale; however, there are 3/10 of acre of landform that drain towards this feature which triggered the class four special on the forest practice application, and was the reason that a geotechnical report was developed. A relic landslide feature was developed at the time of the retreat of the glaciers that was determined by a geologist to be extremely stable and of no consequence to the timber sale.

Terry Bergeson asked if Anna Shafer was the geologist that he mentioned.

Anna Shafer stated that she is standing in for Jeff Grizzel who actually did the geotechnical assessment.

Mr. Benner informed the Board that Jeff Grizzell wrote the geotechnical report for the timber sale. He went on to detail how the HCP has allowed them to manage in this type of landscape, outlining the three timber sales that show some potentially unstable slope areas, how they have avoided the high hazard areas, and that harvest has occurred in other unstable slope areas. He pointed out that in one area they had regeneration harvest occur. By working through our staff geologists they have been able to develop effective prescriptions that allow them to continue to manage in these types of landscapes. He noted that the map he reviewed with the Board was produced as a result of a landslide hazard zonation project that Anna and Jeff have both been involved with. He asked Anna to speak about how the map was developed and about managing risk relative to these types of features.

Anna Shafer addressed the Board as the region geologist for South Puget Sound Region. She is standing in for Jeff and is familiar with the report. She provided context on how we are able to manage risk in areas where we have mapped numerous, glacial, deep-seated landslides and other scattered, shallow landslides across the landscape, particularly within the area of the proposed expansion of the NAP. Many references have been made to the unstable slopes in both the SEPA comment letters and the presentations brought to the Board today. Anne and Jeff are in the process of conducting the landslide hazard zonation mapping as a part of broader mapping that is going on statewide under a protocol developed by the Uplands Science Advisory Group. Maps are being created statewide in order to provide a screening tool to regulatory forest practices staff and land managers in order to be able to manage on and around these features. They are generating a landslide inventory map which shows the actual delineated landslides. A total of 48 glacial deep-seated landslides have been mapped and 58% of those have been field checked; 25% is required by LHZ but they have gone beyond that in an effort to provide a good screening tool for DNR managers. This tool allows the foresters to proactively manage within this area with numerous potentially unstable slopes. There is a wide variety in activity level of the deep-seated landslides, as well as the risk level and the hazard associated with those landslides. Ann pointed out four landslides that were identified both within and adjacent to the vicinity of this timber sale. One was determined to be a relic landslide which occurred centuries to millennia ago under a different climatic regime. During the empiric based analysis it was determined that timber harvest and other land use activities that have occurred in the past have not had an impact on this particular landslide. She pointed out that landslide and forest management activity has occurred in the groundwater recharge area on another slide area. The two other landslides are the same; they were excluded from the sale. These examples portray how DNR uses this as a screening tool and allows them to bring in the geologist for a risk assessment upfront in order to establish the high-risk areas. No management is proposed in these high-risk areas; the low to moderate risk areas are assessed on a site by site basis.

Terry Bergeson asked what was screened with the screening tool.

Ann replied that they determine where the landslide activity is located, what the activity level is, and if there are signs of recent or active movement on the landslide and what the factors are affecting the movement. The next step includes an empiric analysis, looking at a time sequence of aerial photographs, to determine where the landslides are, and if there is any correlation

between previous forest management, and residential development activities. In this case it would be forest management activities.

Terry Bergeson asked how they can tell when the last landslide happened since there are no aerial photographs available from millennia ago.

Ann explained that DNR has good coverage of air photos going back to the 1960's and in some cases to the late 30's or early 40's which provide an overview of forest management activity back to the early twentieth century timber harvest activity. This allows staff to review the response, if any of the landslide to forest management activities in the context of an analysis of precipitation data, and small storm events and intra-annual storm events has occurred. This also allows them to see if there is a response to land use activity and storm activity as well. Glacial deep-seated landslides occur due to the hydrologic sensitivity, changes in groundwater level affect these landslides first and foremost, in addition to timber harvest activity and other land use.

Chair Sutherland asked if they do onsite reviews as well.

Ann confirmed that they do onsite reviews; they start with a remote review; there is further analysis with GIS, precipitation data analysis, and field reconnaissance.

Mr. Tweedale added that Jim Ryan, DNR's state hydrologist, went onsite to review whether water quantity would increase. His results showed that we have mitigated and stayed away from all the streams and that water quantity or recharge will not be excessive because of the timber harvest which is an important factual point for the Board to be aware of.

Dan Bernardo asked Anna about the impacts of erosion and siltation as a result of the timber harvest and the probability of affecting the oyster beds or siltation in the stream. He noted that Bob Dick testified that there was no running water and another person mentioned a class-two stream, can that be clarified?

Mark Benner pointed out that Mr. Dick said interior to the sale.

Dan Bernardo reiterated that this is mapped out.

Ann replied that the screening tool is used to go onsite. DNR takes a risk intolerant approach; if there are any high-risk areas identified such as inner gorges, forest practices rule identified unstable land forms, bedrock hollows, or steep toes of deep-seated landslides they are automatically excluded from the sale. Those typically have a high potential for delivery of sediment to a public water sources because of their proximity to streams and other water features. Low and moderate risk hazard areas are reviewed on a site by site basis; looking for any evidence that cumulatively indicates potential for slope instability, such as tension cracking, previous landslide activity, or pistol butted trees. This allows them to provide the foresters with a risk assessment determining the level of risk associated with different proposed management activity.

Mark Benner pointed out that exclusion of these areas from the timber sales is not the only thing that has been done to address potential offsite movement of sediment. He referred the Board back to the Logging Plan Map. He stated that there are timber sale contract clauses that will be included that will help to mitigate for this such as equipment use restrictions. Designated track skidding equipment will be used, and they will be limited to using the individual skid trail locations, and materials will be shovel logged into that. The activity is also seasonally restricted and will not be allowed during the wettest months of the year when offsite movement of sediment is most likely to occur. He referenced a leave tree clump that protects a blind lead area, which means that the timber that would come up the hill offers a lack of deflection on the nose of the ridge. Had this been included in the sale, the point would have received substantial impact from logs being ground leaded across it. It was excluded from the sale to prevent any impact to the soil. Full bench road construction will be utilized on the steeper slopes, with the material being loaded into dump trucks and hauled back to the stable waste area on the ridge top rather than side cast on the steeper side hill. He concluded by saying that these are just a few of the other implementation measures that will occur to help with offsite movement of sediment.

Mr. Nichols asked if this guarantees that no sediment will fall into the bay.

Mr. Benner stated that he cannot guarantee that won't happen. There is a possibility of having five inches of rain in a twenty-four hour period that may cause sediment to move into the stream as a result of those types of natural occurrences, but this sale is designed not to exacerbate those occurrences.

Mr. Tweedale explained that there is a mitigated SEPA document that addresses the underwater quality. The contract clauses mitigate against both quality and quantity impacts. DOE reviewed the SEPA and had no comments or concerns with quantity or quality going into Dabob Bay.

Chair Sutherland asked Mr. Benner when he graduated and how long he has worked for the Department and how much time he spent onsite as he developed the sale.

Mr. Benner stated that he graduated from the University of Washington, that he has worked for the Department for fourteen years, and that conducting the leave tree marking and identifying the older trees allowed him to walk all of the grounds of this sale.

Chair Sutherland asked Mr. Benner if he is familiar with other vegetation that typically grows in this area.

Mr. Benner explained that in terms of forest vegetation type this is more of upland; salt marsh plant communities do not exist on this site. The site is dominated by salal, evergreen, huckleberry and sword fern, with an overstory of red alder and Douglas fir.

Jon Kaino asked how much money has been put into this sale, and if we keep track of that specific to each sale. If the sale is delayed or if it ends up not being sold what is the cost to the Department?

Jon Tweedale said that at least \$100,000.00 has been put into the sale but if the specialists involved are added the figure could double.

Chair Sutherland asked if the SEPA process would have to be repeated if the Board deferred this activity.

Mr. Tweedale stated that the SEPA process would have to be repeated if this is delayed by the Board. He went on to address concerns brought up by the audience by presenting the Board with a report that was created by the Natural Heritage specialists who are responsible for the NAP and NRCA designations. He reviewed a portion of the report with the Board that speaks to the previous harvesting of the Tarboo area less than one hundred years ago. The report states that the sale area and the remaining portion of the stand would not be a stand alone natural area preserve recommendation due to its stand history and size. Due to its distance and riparian and adjacent slope buffers the recommended sale is unlikely to have any direct impact on the Dabob Bay NAP in the short term. In conclusion he addressed Ryan Dicks' comments relative to encroachment of development in the protection of these areas. Encroachment by development is a threat, but working forests keeps this in forested class, and a working forest. Ryan's suggestion that there might be development in the future will not happen because this is trust land and will be kept in forest land status and in working forests; DNR will not be developing this for homes. In conclusion Mr. Tweedale said that this sale has been designed so there will not be any impacts on Tarboo Dabob Bay.

Bob Nichols asked what the relationship between the NPA specialist that wrote the report and the Washington Natural Heritage Advisory Committee is, and if this individual speaks for the advisory committee.

Mr. Tweedale stated that this person speaks for the Department. He invited Pene Speaks to address this question.

Terry Bergeson said that she was trying to figure out how this sale will fit into the larger conversation. She had several questions about why this sale is going to make any of the impact that she heard earlier.

Chair Sutherland assured her that that is the direction the conversation is heading.

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Pene Speaks provided the Board with a summary of the responsibilities of the Natural Area Programs and the Natural Heritage Advisory Council. The Natural Heritage program is responsible for making recommendations to the Natural Heritage Advisory Council for natural area preserves and other conservation activities. The Natural Heritage Advisory council is advisory to DNR, Washington Department of Fish and Wildlife (WDFW) and to State Parks for the identification of primarily natural area preserves. The ten member council is appointed by

Commissioner Sutherland. The Natural Heritage program works closely with and supports the Natural Heritage Advisory Council. The Council makes recommendations to the Commissioner for natural areas.

Terry Bergeson asked if this is the pipeline into recommendations that the Board may make for trust land transfer activity, such as changing status.

Ms. Speaks agreed that this is the case in an area of trust land that is identified as appropriate for a designation as an NAP or an NRCA.

Bob Nichols confirmed that this letter is just one piece of information that the advisory committee would consider, along with other pieces of information.

Ms. Speaks agreed that this is a small piece of a larger evaluation that will be completed in this area in a year. Rex Crawford, DNR's state ecologist walked the sale and evaluated the plant association.

Mr. Nichols questioned if there is a planned larger evaluation of the whole area.

Ms. Speaks stated that this is what they would like to do and they have been asked to look at the NAP and surrounding area to determine if there is an appropriate long-term boundary for the NAP for the natural heritage features that are present, and to see if there are higher conservation values that should be looked at.

Commissioner Sutherland stated that he had committed to those concerned that this is what will take place. It will take a year, to a year and a half to complete the entire watershed area looking at the lands that are trust lands only, not the private lands. There are some significant areas around the bay that DNR has ownership in that he feels would more appropriately be designated as part of conservation or preservation area, especially the steep slope areas which have already been identified and are already part of the program. There are more areas that could be associated and placed into that status. He noted that we did not perform any work nor make recommendation to the legislature for funds or specific acreage, so we were surprised to find a 200 acre undefined area and a \$5 mm appropriation to cover that. We had to find the most appropriate lands and since we don't know the specifics, which are what Pene and her staff are responsible for doing.

Jon Tweedale assured the Board that he had confirmed with Ms. Speaks that this would not preclude any future designation.

Jon Kaino asked if this \$5mm appropriation and the 200 acres were not requested through DNR. He also asked if the 200 acres was site specific

Chair Sutherland stated that it was not requested by DNR. He also confirmed that the 200 acres is yet to be determined.

Dan Bernardo asked if all the areas in orange blocks would be eligible to be considered.

Chair Sutherland said that they would, but to be eligible they have to fit within the specifics of the program.

Jon Kaino asked if DNR would be logging on three sides of these 68 acres if it is designated as an NAP or NRCA.

Mr. Tweedale noted that the natural area expansion has been identified by the region. Some of those areas were adjacent to the current designation.

Mark Benner brought the attention of the Board back to the final slide of his presentation. He reviewed a 40 acre piece of land that abuts the NAP; characteristics of this land include some coastal bluff and some high hazard areas for some unstable slope risk, as well as an area that is adjacent to the existing NAP. These have been identified by the region as candidates that would make sense for expanding the NAP.

Proposal acreage not harvested to provide environmental protection

- North Urch Timber Sale = 37%
- Golden Goat Timber sale = 21% (plus an additional 24% with a partial cut prescription within the recharge area)
- East Fork Tarboo Timber Sale = 28%
- The State's HCP has provided protection to an average of 36% of the land base over the last several sales in the Tarboo sub-basin.

Chair Sutherland thanked Mark and Anna for their presentation. He asked Mr. Tweedale to go back to the June board sales.

Mr. Tweedale recommended all 20 sales at 78,516 mbf with a minimum bid of \$23,992,440 be approved for auction for the month of June 2007.

Terry Bergeson asked when they would have the rest of the discussion and what process is being used. She expressed concern about not understanding why this piece would disturb what everyone else was talking about in the earlier comments. She does not understand their concern about this piece in relation to expanding the NAP, and the dollars and arguments that she just heard.

Chair Sutherland stated that from his experience walking the sale that he could understand that those who want to protect the watershed would want to protect the entire watershed, however under NRCA and NAP's and what criteria are needed to designate it as such that this area does not fit. It appears that there are areas within the watershed that do meet the criteria, but they have not been specifically defined. The department needs approximately twelve to fourteen months to complete the designation and bring it back to the Board, and at that time we will use the funds and the authorization from this current budget that has yet to be signed.

Terry Bergeson asked if the Board approves this timber sale today that it would not disturb the Bay or the ability to continue working on the 200 acre, \$5 mm dollar deal.

Bob Nichols praised DNR staff for their top notch work on this issue. He expressed concern with how the social and economic circle was defined. The Board has talked about how to accommodate social values when DNR lands are in the urban forestry interface. He feels this is a huge issue that has been recently addressed by the Blanchard Mountain, Olympic Experimental Forest, Loomis Forest, and Lake Whatcom issues where we have tried to design something to accommodate that broader social circle. His concern is that the community thinks differently than the Department on these issues, so how can the Board try to address this as part of the sustainable forestry piece. He doesn't feel that the Board members have had a chance to look at the other twenty letters that impact that social impact point of view.

Dan Bernardo stated that the people are asking for a delay, and that the most recent report stated that the potential delay offers a low probability that this parcel would qualify. Delays don't solve the problem; they just delay long term decisions that need to be made. He doesn't anticipate anything within the next year that will change the planning climate for this parcel.

Mr. Nichols feels that a delay would give the Board a chance to address accommodating these concerns. He feels the Department's point of view is a pre-judgment that this parcel doesn't fit or belong in an NAP, but there is an advisory council in the context of a broader plan that should be looked at from that perspective. He would like the process delayed until at least June to let people sort through the broader context. He is not supporting a long-term delay, but he feels there is information that the Board has not had ample time to consider. He would like the Department to sit down with the concerned people to try and work something out. He feels that we need to address that third circle of the sustainable forestry harvest calculation that we struggled with earlier. He'd like the Board to recognize the longer term issue that a broad based group of people has shown support for this, and that it would be a good thing if there is a way to accommodate them and keep the trust whole. The danger of pushing forward without trying to accommodate them would aggravate the situation between the urban and the forestry area. He'd like to find a way to work through this.

Bruce Bare shared that if this parcel were to be included in an NRCA since it is not NAP quality, but it's not common school lands so we would have to set up a more complicated deal.

Mr. Tweedale stated that the Department would have to do an integrant exchange.

Mr. Bare asked if the Department has looked at suitable property in Jefferson County and if that could be done in this same timeframe.

Both Chair Sutherland and Mr. Tweedale stated that this cannot be done.

Bob Nichols asked if there are other options besides NAP or NRCA for this land if the advisory council determines it doesn't fit. He noted that there are several groups that want to preserve this land for various reasons, what other options are available.

Chair Sutherland explained that this is forest board land which means it cannot be sold by statute. It can only be exchanged. Even if it were put in conservation status or NAP status there would have to be an intergrant exchange first. The exchange can only happen with common school; we would have to find equivalent value lands elsewhere to be able to accommodate that exchange. Because of the statutory requirement not to sell the land we have the trust obligation to the county and it's junior taxing districts as we do to other trust beneficiaries. There is no other status to put this even on a short term basis. Another consideration is that this is a June board sale and that is the end of the fiscal year and the end of the biennium which does impact this biennia's status.

Terry Bergeson noted that Dave Sullivan and John Austin talked about two other sales in their comment letters. She asked if these sales are in addition to the one being considered today.

Jon Tweedale stated that those sales were sold before the letters came. They were not related to the Tarboo Dabob Bay sub-basin.

Mr. Nichols confirmed that in Jon Tweedale's opinion that there would be no value in waiting to see if anything could be worked out.

Mr. Tweedale reiterated that his professional staff would not recommend the delay, nor would it preclude future designation. He agrees with having a dialogue but the recommendation would not be for this to be included.

Terry Bergeson asked Jon to confirm that in the information presented today, this particular parcel would not meet the criteria for an NAP, and that future negotiations would not put this recommend this as an appropriate parcel, but there are other parcels in this area that are mentioned by the legislature that could be appropriate.

Mr. Tweedale stated that this is correct.

Ms. Bergeson continued by saying that she is still struggling with understanding this issue completely. She relayed to Mr. Tweedale that if we have a designation that isn't going to apply to this particular sale and that we have a larger plot of land that could be considered around the bay that we aren't stopping anything that was addressed in peoples concerns today. She understands that people don't like what we are doing but the Board has fiduciary responsibility to the trust lands that are represented.

Pene Speaks clarified that whether this parcel is sold and harvested, or not sold and harvested would be part of a broader look at whether or not an NAP or NRCA is an appropriate designation. This parcel could be included even after it was harvested as a potential buffer area or something else in either an NRCA or NAP designation, which can't be done by June. She wants the Board to be clear that this particular parcel may be included in a future recommendation and whether it's harvested or not might have an impact on that.

Terry Bergeson asked Ms. Speaks if the parcel does get harvested in the course of the determination it would not prejudice the recommendation against the expansion.

Ms. Speaks stated that this is right and that these 69 acres is not that large of an area, so they would consider the larger context of the drainage.

Bob Nichols clarified that in the Department's perspective that there is no advantage to delaying this timber sale. Doug's earlier response indicated to him that there are no options other than NAP and it does not meet those qualifications.

Ms. Bergeson explained that you could do the NRCA but it involves a more complex process of land exchange whether it's this parcel or some other portion of this area. She asked if the \$5 mm includes NAP or NRCA.

Chair Sutherland stated this it doesn't identify.

Jon Tweedale addressed Bob's question by responding that regardless of the NAP or NRCA designation, the broader scope discussion can occur alongside with managing forestland. This 69 acres is not going to jeopardize that discussion or future potential designation. There are no other options for this land other than managing it for timber.

Bruce Bare asked if there are any other planned sales in this area in the next five years.

Mr. Tweedale stated that there are none.

MOTION: Terry Bergeson moved to approve the June, 2007 timber sales

SECOND: Bruce Bare seconded.

DISCUSSION

Terry Bergeson thanked Department staff for their careful work to preserve the streams within the area, and the careful designation of the timber.

Bob Nichols requested a report in a year that details how the broader look has transpired in an effort to be accommodating to the community. He is bothered that this issue came up only three days ago; he would like to have a broader information base when he is faced with a situation like this. He feels he could have benefited by having information on the broader issue of which the sale was a part.

Terry requested an update in June about the planning process for the report.

Bob Nichols would like the report to address the issue of how the working forest concept works in this context. He feels this would address the issue of urban versus rural, and that the concept of a working forest within a concept of a broader community protection plan for a watershed will be very valuable.

Jon Kaino agreed with what has been discussed and he is wondering what we can work out. He asked if there was a delay would we have to go through the entire SEPA process again.

Jon Tweedale said that the sale is laid out but the information becomes stale, and whether the whole process is necessary depends.

Jon Kaino stated that he can't justify delaying this sale if the staff agree that it is not going to qualify for an NRCA or NAP.

Terry Bergeson shared that there has to be better property for the purposes that everyone is looking for that could be designated NAP or NRCA.

Chair Sutherland asked for additional questions or comments, hearing none, he asked for the Board's approval.

ACTION: Motion passed unanimously

Chair Sutherland called a ten minute break at 11:20 a.m.

The meeting was called back to order at 11:33 a.m.

Chair Sutherland announced a change in the order of the agenda due to Terry Bergeson's schedule. The Board moved on to the first Chair Report.

CHAIR REPORTS

Sustainable Harvest Adjustment (Handout 2)

Bruce Mackey and Angus Brodie presented the Sustainable Harvest Calculation for Forested State Trust Lands in Western Washington.

Bruce Mackey addressed the Board first. He brought forward information for recommendation to recalculate the statewide sustainable harvest level in July. The policy states that we will request an adjustment of the recalculation when the Department determines certain changing circumstances. Recalculation is something they recommend when circumstances within in the planning decade suggest that a harvest level would be prudent to change. The major changes they have analyzed are the settlement agreement and the riparian forest restoration strategy.

Mr. Mackey went on to review that in 2004 the Board approved the policy and gave clear direction asking them to be flexible in the longest term harvest flow, which allowed them to maximize incoming value over time. The Board made recommendations grouping the Federal grant and the state board purchase ownerships into one site sustainable harvest unit, giving more flexibility, the Board was also very clear about using active management across the landscape which met all the habitat as well as income objectives, and encouraged the use of innovative silvicultural practices. In 2004, the Board's direction culminated in the approval of an annual decadal harvest of 5.97 billion board feet. The 2004 decision was based on the analysis of the current situation of 3.97 billion board feet, or the current alternative at that time versus the

Board preferred alternative which would give an average of 5.97 billion board feet over the decade, but would be attained over time by a buildup of the harvest level starting below the annual average and end up above it over the decade. An unanticipated circumstance was the lawsuit by the Washington Environmental Council (WEC) and others, challenging the environmental impact statement for the 2004 sustainable harvest, which left us unsure of what that would mean. The lawsuit had much less of an impact than we anticipated because we met with the plaintiffs and came to a settlement. That agreement will be part of today's presentation.

In conclusion Mr. Mackey indicated that they had also looked at other factors that could impact the sustainable harvest such as the policy for sustainable forestry, which included the old growth, older forest policy, as well as Lake Whatcom and others, that weren't included. They identified a 1% impact which they felt was not worth bringing forward to the Board.

Angus Brodie approached the Board to present the settlement agreement and the implementation for the riparian strategy. He stressed three points

- The same modeling assumptions, price and data sets that were utilized in 2004 were used for this analysis
- The information is being presented on the impacts in the first decade as well as over seven decades, the seventh decade is around the horizon of the habitat conservation plan
- These are forecasts, we are comfortable with in the near-term but as we look out at the future the confidence level diminishes

Mr. Brodie reviewed the combined effects of the settlement agreement and the implementation for the riparian strategy on the sustainable harvest. He reviewed the affect of these decisions on the 1st decade harvest level, the cumulative harvest volume after 7 decades, and the structurally complex forest after 7 decades.

Bruce Bare asked if we planned to cut 597 in the first decade.

Mr. Brodie replied that this is the annual average, but we are still attempting to achieve the equivalent of that harvest level over the decade.

Bruce Bare asked what the actual harvest level was in the old plan.

Mr. Brodie explained that the average in the first decade, times ten, gives the total sustainable harvest level, which is counted as a deliverable. The Department was not staffed or equipped to go from the 450 mbf level of 2004, to the 597 mbf, so they had to develop an implementation route. The settlement agreement and the forest restoration strategy combined will lead to a forecasted 8% decline in the first decade harvest level down to 550, with a decrease in net present value. Over the 7 periods there will be a cumulative decline in harvesting, which is a significant drop; the net present value will drop and a 55% increase in the creation of older forest conditions.

Bruce Bare asked if we were satisfied with 137,000 acres of older forest conditions in 2004, are we more satisfied with 213,000.

Mr. Brodie replied that the original targets for each of the HCP planning areas are 10 – 15%, 137,000 is slightly less than 10% on the average for each of the 6 planning units, and 213, 000 is just over 15%. He moved into affects of the settlement agreement upon the sustainable harvest. Mr. Brodie reviewed a brief history of the settlement agreement, the elements of the agreement, the strategy of no net loss of northern spotted owl, and the three main strategies that impact the sustainable harvest:

- There will be no timber harvest activities in high quality habitat in Nesting Roosting and Foraging (NRF), dispersal, Olympic Experimental State Forest (OESF) or owl areas until 2014 or until the sustainable harvest is revised
- Maintain and enhance low quality habitat in NRF, dispersal and owl areas
- Maintain or enhance low quality habitat in OESF with the use of innovative silviculture

The impact of the settlement agreement is to reduce the harvest volume but not necessarily our revenue earning potential.

Dan Bernardo shared that he thought the people who developed the agreement should be proud of their work, they managed to take the harvest level down, the net present value up, and the percentage of older forest went up significantly.

Mr. Brodie addressed the increase in regeneration harvest on areas outside the owl management areas, which is one reason for the increase in revenue. He will address this with the Board in July. He moved on to the implementation procedures for the riparian forest restoration strategy. The habitat conservation plan includes a set of strategy objectives, in addition to that there are 2 additional objectives added as the strategy was developed. During the sustainable harvest in 2004 the strategy document was not in place, a series of modeling assumptions were created. As a result a number of stakeholders expressed concern about the modeling assumptions in 2004; assumptions related to opening size, hardwood conversions, and the risk of blow down due to assumed heavy thinning. The Department developed a strategy to address the stakeholder concerns and meet the objectives. The strategy objectives included an intermediate restoration goal, described as the riparian desired future condition.

Bruce Bare asked if we agreed to implement the riparian strategy in the recalculation.

Bruce Mackey stated that we agreed to include it when we did the recalculation.

Mr. Brodie continued on to talk about the key components of the riparian forest restoration strategy. One is to describe some minimum conditions for an intermediate restoration goal:

- requires stands that have 300 square feet of basal area, or an average diameter of 21 inches
- Agreed to not doing management in stands over 70 years of age for a 3 year period
- Implementation of a low priority on hardwood conversions
- Limit gap sizes
- Maintain a higher level of stocking

- Limit the number of entries into the riparian areas

The impact of the riparian implementation strategy is a 4% reduction. Mr. Brodie went on to review the slides outlining the impacts of the implementation strategy.

There was some discussion surrounding active management and silvicultural treatments. The discussion culminated in the understanding that we are treating fewer acres, lighter and less often resulting in the production of less older trees.

Terry Bergeson asked if we would address concerns about the active management level over time.

Mr. Mackey explained that they are trying to demonstrate how this works on the ground identifying the potential and opportunity costs, and that we'll know more about how to adjust that over the 3 year period.

Bruce Mackey asked if the riparian areas in the OESF area are treated differently than other planning units.

Mr. Brodie stated that they are, and that the OESF is not covered under this riparian forest restoration strategy. He moved on to review the impact upon the sustainable harvest units and the change between the 2004 Board approved harvest level and the 2007 sustainable harvest adjustment. He pointed out the absolute difference between the two and the percentage change, noting that there is a wide range of numbers that indicates that the impacts are not distributed across the planning units. Next he reviewed the impacts to the individual trusts in the first decade noting that there is not an equitable distribution across the individual trusts. The Common School Indemnity Trust is taking a substantial amount of the decline at \$26 million. Mr. Brodie reviewed the net present value over the first decade, which also shows an equitable distribution across the trusts. He then went on to discuss the anticipated implementation to the level of 5.5 bbf over the remainder of the decade. Next steps would be the development of an addendum to the final EIS, and completing an economic and financial analysis. They plan to return to the Board in July with the information, a recommendation and a resolution for adjustment of the sustainable harvest.

Terry asked this to be put back on the agenda for June in order to discuss this further.

Chair Sutherland directed Mr. Brodie to be prepared to address the Board in June.

Mr. Brodie asked the Board to let him know what specific information he will prepare it ahead of time.

Jon Kaino asked for a county breakdown of purchase lands.

Mr. Brodie responded that the information was available on slide 24.

Jon Kaino asked what would happen if the Board doesn't vote in favor of their recommendation.

Mr. Mackey replied that if the Board doesn't accept it the number stays at 597 and they will do everything they can to reach it.

Jon Kaino asked what the ramifications are to the settlement.

Mr. Mackey replied that we would have two directions, implement the riparian strategy, a legal requirement to do the settlement and also try to reach 597 in spite of the two additional constraints.

Dan Bernardo asked them to consider the decline of harvest levels but net present value staying the same or going up as a result of pushing sales earlier. This is possible and as trustees they need to look at the net present value. We should be concerned about the net present value numbers not what we cut.

Mr. Mackey explained that volume is more predictable in terms of what you can grow, what you can model, and what you can determine over time. Prices can vary as much up as they have done; over this administration we have seen an increase of over 30%. The Board gave us direction to look at volume and to manage how we bring that volume forward, how we market it to maximize net revenue within the 25% range constraint around volume.

Dan Bernardo asked if the prices are 2004 or just the costs.

Angus replied that the prices and costs are the same as 2004. He will bring a different formulation in the model back in July for examination.

There was some discussion surrounding the loss of revenue to the counties.

Chair Sutherland thanked Bruce Mackey and Angus Brodie for their presentation.

LAND TRANSACTIONS

Charley Creek Phase 1 Interdepartmental Exchange #86-078671 (Handout 3)

Chair Sutherland reminded the members of the Board that during the last discussion surrounding Charley Creek there were several questions relative to how the Tacoma Public Utilities and their water division manage access to this area. He introduced Chris McMeen, the Tacoma Public Utilities Water Quality Manager.

Evert Challstedt and Dennis Carlson returned to continue the discussion of the Charley Creek exchange. They plan to answer the questions that the Board members had last month and review the orientation for the members that were absent.

Dennis Carlson provided an overview of the property location and its characteristics. The property is located in King County, east of Puyallup in the Black Diamond administrative area.

He outlined the property boundaries and the NAP boundaries, showed the age class distribution, and pointed out the Tacoma Water Green River Watershed. The area is in a gated, locked road access; it is not open to general public access. The Charley Creek proposed NAP represents about 25,000 acres of state land. The older forest condition within the area does not qualify for old growth even though it is in excess of 100 years in age. Mr. Carlson presented the Board with an orthophoto of the area outlining the NAP boundaries, the existing road system, the existing waters, and the riparian zones. He noted that this area is below threshold levels for owls, and older forest condition. It will be two to three decades before harvesting can be done in this area under the recalculation. There are significant riparian areas that can't be harvested because they are unstable. If this proposal goes into an NAP status it will continue to count towards trust land management. The plant associations that are preserved are Western hemlock, devils club and the western hemlock sword fern. These are very common plant associations in western Washington but not common in NAP's.

Chris McMeen introduced himself to the Board as the manager of the water quality section for Tacoma Water. He manages the operations of the Green River Watershed as it pertains to a drinking water supply. He introduced Paul Hickey, a biologist and water resource coordinator who has been instrumental in the development of their HCP and the environmental stewardship duties associated with that resource. Tacoma Water is responsible for providing safe and reliable water to 500,000 people. A large amount of the water supply comes from the Green river. Their three key elements are:

- Public health protection
- Environmental responsibility
- Fiscal responsibility

The Federal Safe Drinking Water Act requires them to filter any surface water that is taken from a stream, lake, or river. There are exceptions for water taken out of high-quality, protected sources. Tacoma Water is one of few utilities in the state that has an unfiltered surface water supply. One of the key regulations is watershed control. The Washington State Department of Health has placed regulations around this. He read the following excerpt from the Washington Administrative Code (WAC):

- The purveyor shall monitor limit and control all facilities and activities in the watershed affecting source quality.
- The purveyor shall demonstrate through ownership and/or written agreements control of all human activities

Control is important to Tacoma Water and the regions they serve. He addressed the question of how they manage control and what that means. He provided the Board with a map of ownership since January 2006. The map defines the watershed as they define it for water that reaches their intake. He pointed out the ownership areas in the watershed. Mr. McMeen noted that there approximately twelve gates along the boundary, 3 main gates and secondary gates along the ridges, and gates to the Seattle watershed to the north. The gates are all locked. The main gate near the Tacoma diversion, which is the main way people get into the watershed, is staffed 24 hours per day. Everyone who enters this area is known or is an owner with a key. They have agreements and partnerships with all the owners in the watershed to make that work. He reiterated that watershed control does not mean people don't go in, it means that they know who and how many and that they have a business need or a role in the management of the

watershed. Over the last three years they have tracked approximately 20,000 people per year entering the watershed. There has been major construction activity and they expect that when that is finished the number will reduce to 10,000 per year. They also allow two hunts per year in cooperation with the Muckleshoot tribe and the WDFW. One is strictly for the Muckleshoot tribe and the other is called an all citizens hunt. Both occur in the fall and include bear, elk, deer and cougar. Each hunt allows for 10 – 12 permits. Tacoma Water inspectors spend a great deal of time educating the hunters before they go in and everyone who comes out is checked out, the hunts are tightly controlled. Another key activity is forest management and commercial harvesting. Unlike other unfiltered systems in the western United States there is commercial activity in the area. Tacoma Utilities believe that is compatible when controlled and monitored closely. Tacoma Water owns about 10 % or 15,000 acres that is concentrated along the water bodies. The remaining 90% is owned by others with DNR being a 14% owner. They value the critical relationships with all the owners which allows them to avoid the regulatory filtration issue.

Jon Kaino thanked Mr. McMeen for coming to talk to the Board today. He agrees that limited public access to this watershed is justified, and he agrees with the NAP designation. He thanked Doug and Evert for their efforts in making sure his questions were answered.

Chair Sutherland thanked Chris for coming down.

Evert Challstedt addressed the Board and reviewed the transaction details that were laid out last month. He explained that there are five trusts located on the property, and identified them as Common School Trust, King County State Forest Transfer Trust, Original University Trust, Normal School Trust, and Capitol Building Trust. Non-Common School Trusts must be exchanged for Common School Trust of equal value to complete the transfer. State Forest Transfer Trust will be kept in King County by moving it to the Markworth Forest block in northern King County. The other granted trusts will be moved outside the county, some to East Jefferson County, and the other to Mason County. Evert briefly laid out the exchanges and their components of value.

| Trust Property | Acres | Timber Mbf | Timber Value | Land Value | Total Value |
|------------------------------|------------|---------------|------------------|----------------|------------------|
| State Forest Transfer | 428 | 18,281 | 6,106,000 | 338,000 | 6,444,000 |
| Common School | 1,082 | 6,744 | 2,819,000 | 3,639,000 | 6,458,000 |
| SFT Gain/Loss | +654 | -1,1537 | -3,287,000 | 3,301,000 | +14,000 |
| Normal School | 190 | 9,807 | 3,342,000 | 63,000 | 3,405,000 |
| Common School | 292 | 8,707 | 3,115,000 | 283,000 | 3,398,000 |
| NS Gain/Loss | +102 | -1,100 | -227,000 | +220,000 | +7,000 |
| University Original | 38 | 2,402 | 848,000 | 15,000 | 863,000 |
| Common School | 263 | 2,643 | 764,000 | 101,000 | 865,000 |
| US Gain/Loss | +255 | +241 | -84,000 | +86,000 | +2,000 |
| Capitol Building | 120 | 3,766 | 1,029,000 | 55,000 | 1,084,000 |
| Common School | 75 | 2,887 | 1,029,000 | 58,000 | 1,087,000 |
| CB Gain/Loss | -45 | -897 | 0 | +3,000 | +3,000 |

Evert stated that the balances on market value for the exchanges are good. An exchange public hearing was held in North Bend on May 4, 2006; one person attended and testified on another project. One written comment was received in favor of the exchange. The conditions of the transfer are:

- Minerals retained as currently owned
- Transfer to NAP status
- DNRHCP retained on the land

The benefits of the exchange are:

- State Forest Transfer, Normal & University, Original School and Capitol Building Trusts
 - Receive properties of equal value
 - Positioned for timber income
 - Positioned for greater appreciation
- Common School Trust:
 - Positioned for transfer

Transfer values are:

Timber value \$15,823,000 \$14,077/acre

Land Value \$ 1,177,000 \$ 1,047/acre

Total Value \$17,000,000 \$15,124/acre

- Timber 48,216/mbf - \$328/mbf

The benefits of the transfer are:

- Transfers out of harvest restricted timber
- Receives market value for land and timber
- Timber values benefits school construction
- Land value reinvested in productive land
- Land retained as dispersal habitat in HCP

In conclusion Evert reviewed a slide showing the 2005 -2007 transfers to date for this biennium and anticipates bringing two more to the Board's attention in June.

MOTION: Bob Nichols moved to approve resolution 1222.

SECOND: Dan Bernardo seconded.

ACTION: Motion passed unanimously.

Charley Creek Phase 1 Trust Land Transfer #02-078325 (Handout 4)

MOTION: Bob Nichols moved to approve resolution 1223.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS

The Board convened as the Harbor Line Commission at 12:45 p.m. to hear the Port of Poulsbo Harbor Line Change.

Port of Poulsbo Harbor Line Change (Handout 5)

Rich Doenges and Hugo Flores addressed the Board to present a request from the Port of Poulsbo to change the outer harbor line. He reminded the Board that they are acting as the Harbor Line Commission, which is laid out by Article XV of the State Constitution. Harbor lines are set up to preserve transportation from water to land and land to water, functioning for both navigation and commerce. The Harbor Line Commission has the authority to change, relocate or establish harbor areas. The area being brought to the Board today is Liberty Bay in Kitsap County. The current 100 acre, 3 mile shoreline existing harbor area was established in April of 1916, it was last changed by the Harbor Line Commission in May 1983. There are three marinas located within the harbor area, the Port of Poulsbo Marina, the Poulsbo Yacht Club and the Liberty Bay Marina. An information meeting was held on March 8th, a formal public hearing was held on March 29th. The deadline for formal SEPA comments ended April 12th, staff is in the process of reviewing those comments. The Board will be presented with a formal response to the SEPA comments and a recommended decision in June. Mr. Doenges reviewed the inner and outer harbor line configuration. He explained that the Port of Poulsbo has requested the change because they are experiencing shoaling. They have 12 slips that ground out on a low-tide. The Army Corp denied their request for dredging because of impacts to listed species salmon. The request is to extend the outer harbor line approximately 500 feet, which will add 16 acres.

Bob Nichols inquired if the request is for expansion of the marina or for making sure boats get in and out without getting hung up.

Mr. Doenges responded that it's a bit of both. They had originally thought of expanding their floats but because of the shoaling that wouldn't meet their needs. The expansion of the harbor line outward will allow them to facilitate an expansion of the marina as well as having some additional transient moorage.

Bob Nichols asked if they would expand to the outer line.

Mr. Doenges explained that they could expand up to the harbor line within the harbor area, but his understanding is that they will not do that. They will have some mooring buoys situated between the new breakwater and docks and the outer harbor line.

Chair Sutherland asked if it they planned to move any of the operation away from the shoreline

Mr. Doenges replied that the existing breakwater will be taken out and replaced with a floating breakwater which facilitates circulation of water in and out of the harbor area. The net result will be a marina with fewer environmental impacts.

Chair Sutherland asked if the current marina is walled.

Mr. Doenges explained that breakwater on the southern portion of the marina is quarry spall which is grounded. This will be removed, and the new marina design uses a floating breakwater

Chair Sutherland asked what would be done with the materials from the existing breakwater when they are removed.

Mr. Doenges stated that he does not know what the plans are for those materials.

Antonio DeCarlo, Commissioner at Port of Poulsbo addressed the Board. He explained that the plan is to remove the vertical breakwater, which is approximately 330 creosoted piles and replace the floating breakwater further out, allowing better water circulation. Currently the silting piles up against the breakwater, by removing it the tide will help remove it and keep it from settling in that area. They are unable to do any dredging, so they need to move their facility further away from the shoreline.

Chair Sutherland asked if they would be putting in additional pilings

Mr. DeCarlo replied that the new pilings would most likely be steel rather than creosoted piles. He explained that they plan to move the new breakwater further out and putting mooring buoys out to accommodate the annual events that create a full harbor.

Mr. Doenges said that the Department agrees that the Port's proposal will be a positive affect for the environment, that there are no impacts to navigation, and offers improvements for commerce.

Bob Nichols said that typically harbor line expansions constrain the waterway and make them more difficult to negotiate. He asked what is on the other side and if that is the case here.

Mr. Doenges stated that he is correct and showed the Board a larger scale map of the harbor area. He stated that the Department does not see any impacts to the navigation in and out of Liberty Bay from the expansion of the harbor line.

Hugo Flores pointed out that there will be approximately .47 miles of stretch open for navigation after the Harbor line is moved

Mr. Doenges will present the formal harbor line change in June for a final decision and possible resolution.

The Commission thanked the Port of Poulsbo Commissioners for attending the meeting.

The Board reconvened as the Board of Natural Resources at 12:56 p.m. The meeting broke for a 35 minute lunch break.

The Board returned from lunch at 1:38 p.m.

LAND TRANSACTIONS

Oak Creek Trespass #T3-79759 (Handout 6)

Commissioner Sutherland introduced Eric Watrud from Southeast Region to the Board. Mr. Watrud presented the Oak Creek Trespass. The property is located 20 miles west of Yakima, and is scientific school trust property. He gave the Board a brief history of the trespass; the elderly couple that purchased acre 12.3 acre parcel and replaced a mobile home with the current home 10 years ago. The couple notified DNR when they were informed by a surveyor that their home was located on state land. The proposal is to exchange 12.3 acres for the 5.4 acres that surrounds the house. They will pay the \$28,500 difference in the property appraised value. The resolution was developed in cooperation with WDFW, as the land is proposed for eventual transfer to them.

Bob Nichols asked why 5.4 acres is worth more than the 12.3 acres.

Mr. Watrud explained that the property that they own is a speculative home site, and the piece they would acquire is a demonstrated home site. He explained that they are trying to consolidate these parcels with these land exchanges. A public hearing was held, the landowners son was the only attendee. He provided testimony in support of the exchange.

MOTION: Bob Nichols moved to approve resolution 1227.

SECOND: Jon Kaino seconded.

ACTION: Motion passed unanimously.

Sturkey Estate Tideland Donation (Bainbridge Island, Kitsap County) (Handout 7)

Rich Doenges and Rich Phipps presented the donation to the Board. Mr. Doenges gave a brief definition of tidelands which are those submerged lands between ordinary high water and extreme low water. This gift of tidelands is located on the east side of Bainbridge Island in Rolling Bay, north of Skiff Point. The .7 acre tideland is located between two existing state-owned tidelands of similar size and configuration. DNR does not have the authority to purchase tidelands so the Department can only accept them through donations or obtain them through an exchange. The Mary Sturkey Estate is gifting these tidelands to the Department with no deed restrictions.

Rich Phipps pointed out the boundary of the tidelands for Mr. Nichols.

Mr. Doenges explained that this parcel was in state ownership until 1943 when it was sold. He described the property characteristics, and gave the assessed value of \$300. An appraisal is being done, and he anticipates that it will appraise for much more. The existing upland owner has no concerns with the donation. The upland owner will have statutory preference rights for any leasing activities since this is a first class tideland (i.e., within the municipal boundaries of the City of Bainbridge).

Rich Phipps explained that the authority to accept tideland donations came into place in 2005. The statute does not make clear if a resolution is required or not. They are bringing it before the Board for their concurrence so they have prepared a resolution.

Mr. Nichols asked if there were any reasons to not accept the donation.

Chair Sutherland responded that the only reason they might not want to consider the donation was if it was laden with pollutive materials.

Rich Phipps assured the Board that a pre-acquisition screening had been conducted and that it indicated that any likely sources of sediment contamination would not have affected this property.

MOTION: Bob Nichols moved to approve resolution 1228.

SECOND: Bruce Bare seconded.

ACTION: Motion passed unanimously.

CHAIR REPORTS

Real Property Trespass Review (Handout 8)

Kit Metlen addressed the Board to present a real property trespass review. He provided a definition of realty trespass, which generally does not include timber and other valuable thefts such as gravel and rock, damage caused by vandalism, and misuse of state lands and resources. The trespasses are usually discovered while doing land management, such as timber sales. Most trespasses appear to be unintentional, and most are on the borders of state lands. Simple trespasses can usually be resolved by moving a fence or a trailer; however the larger permanent structures must often be taken care of by the Division and come to the Board. Costs such as appraisals, surveys, staff time, and recording costs are recovered. Those costs go back into the program to maintain it over time. Depending on which trust it is, the land value goes into the real property replacement account or the park land trust revolving account. Mr. Metlen provided a slide showing several examples of realty trespasses. He reviewed the details of various trespass situations and the measures that were taken, or are being taken to correct them. In 2000 the regions estimated that there were approximately 500 incidents including all types of trespasses; 26 of those were fully documented and 3 of them were resolved by Board resolutions in 2005. The others are still being resolved. In 2006, 33 new trespasses were discovered, 6 of those have been resolved. The numbers do not reflect those that are taken care of in the field.

Bob Nichols asked if a common definition of a realty trespass would include easements.

Mr. Metlen explained that it would.

Mr. Nichols stated that he would like to see the numbers reduced but that it seems as if they are on a conveyor belt and more keep getting added.

Mr. Metlen agreed and said that they find them where they have more staff, or in areas where they haven't had a management presence. He explained that they are working with region and division staff to identify the priorities that they can take care of easily, and those that need to be handled by the division.

Chair Sutherland explained that most of the trespasses can be resolved without the need for monetary acquisition or land transfer.

Mr. Metlen agreed.

Bob Nichols inquired if attorney costs are included.

Mr. Metlen stated that they are if the attorney is brought in.

Mr. Nichols stated that he appreciated the definition of trespass.

Mr. Metlen assured the Board that the trespasses will be handled on an exception basis, that they will be presenting more of these trespasses to the Board, and that the ability to cover the costs has allowed them to create consistency in the program.

Bruce Bare asked if there is an RCW that applies when the state trespasses.

Mr. Metlen stated that he believes that there is.

Bob Nichols thanked Mr. Metlen for his presentation.

2007 – 2009 Budget Review (Handout 9)

Chair Sutherland explained to the Board that he had intended to bring the triggering of adjustments to the retainage fee to them today as either a 3-month, operating as a minimum fund balance, or as a 6 or 9-month fund balance that would trigger a reduction in the retainage fee. However, the budget proviso took a different approach and requires the Board to set a retainage fee; otherwise, the retainage will revert to the 25% maximum. He explained this item will be brought back as a resolution next month. Chair Sutherland introduced Bob Van Schoorl to the Board.

Bob Van Schoorl greeted the Board and moved into his presentation of the two funds that are used to manage DNR lands. He reviewed the projected fund balance for the end of this fiscal year, the current forecast for revenue based on current price data, he noted that the numbers are less than the March forecast and they have been updated to take Angus' presentation into account. He went on to review the operating appropriation, which is the amount of money the legislature has authorized us to spend, and the operating and capital budget. The projected balance at the end of the biennium in each of the two funds is \$6.2 million in the RMCA upland portion, and \$7 million in the Forest Development Account (FDA). These funds are both managed with a minimum fund balance, which is different. The RMCA operates at a 3-month minimum fund balance, which is 12.5 % of the operating appropriation. We would try to

maintain 9.7 million in the account at the end of every fiscal period. Given the current 25% management fee for RMCA the balance would be \$3.5 million below the minimum fund balance. The FDA operates under a 6-month minimum fund balance. A Board resolution several years ago decreased the management fund from 25% to 22%. This increased the operating minimum fund balance from 3 to 6 months. If the minimum fund balance dips below 6 months operating the management fee would increase to 25%. If that were to happen, the Board would be notified.

Bruce Bare asked when a trigger would be considered.

Mr. Van Schoorl stated that he would bring it to the Board on a biennial basis.

Bruce Bare asked why the FDA is dropping if the rate is constant.

Mr. Van Schoorl explained that the FDA had a significant fund balance that has been attriting over time, but due to prudent management they have been able to keep it at the current rate. He shifted the presentation to show the new proviso budget language which states that in the forthcoming biennium we have the authority to set the management fee up to 30%, provided that the total amount deducted does not exceed the total appropriations in an operating capitol budget for the fiscal period. At the end of the fiscal period any amount deducted in excess of the appropriations shall be transferred to the appropriate beneficiary's distribution accounts. He reviewed the increased fee approach for FY 07-09 indicating the revenue line from \$71.7 million to \$82,205,000, which is the same amount as the sum total of the two appropriations. That is the maximum that we could put back into the account before we had to transfer back to beneficiaries. Under that fund balance we would have the same beginning and ending fund balance at the beginning of the next biennium. The revenue would have to be lowered back to the 25% the following biennium by law. We would still be moving forward, just slightly below the 3-month minimum fund balance for RMCA.

Bruce Bare asked if we would be distributing any money if the balance was the same in the RMCA fund at the end of the two biennia.

Mr. Van Schoorl said not under the proviso, anything in excess of \$82,205,000 would go back to the beneficiaries.

Bruce Bare is concerned that the revenue is not budget driven rather market driven so the chances of it being \$82 is pretty slim.

Jon Kaino asked how the money is redistributed.

Mr. Van Schoorl replied that in the past the Board has passed resolutions redistributing excessive balances back to the beneficiaries. He guessed that the distribution was determined by a pro-ration of distributed revenue. He continued on to review what this means if the Board adopts a rate increase. The maximum that we could collect without redistributing would be the \$82,205,000, or a \$10 million increase over the current projection. This means that the management fee could be set up to 28.63% without having to distribute back to the beneficiaries. He reviewed how much revenue would be collected at each of the different percentiles, as well as the 3 month minimum and 6 months maximum fund balances. Three of the scenarios fall within the range, but at 29 and 30% we would be distributing revenue back to the beneficiaries. For example, at 29 % we will have collected in excess of \$1.4 million of the \$82 million, which go back to the beneficiaries. Bob instructed the Board that he will bring a rate back to the Board in June after the numbers have been fine tuned.

Bruce Bare asked if the \$71.8 million is based on the current revenue forecast.

Mr. Van Schoorl replied that it figured on the current revenue forecast, current price, current volumes and 25% collection, and that by June it could be different.

Bruce Bare suggested that perhaps the Board should review the management fee every six months if the market keeps changing.

Bob Van School stated that he and Bruce Mackey have talked about having an annual adjustment, with a report to the Board every 6 months, which would be two forecasts.


Bruce Bare commented that we have some triggers to recalculate the harvest but no Board policy about when to recalculate the rate.

Mr. Van Schoorl replied we haven't had to do that in the past.

Bruce Bare agreed and suggested that the Board consider this.

Chair Sutherland stated that we have had responsibility to adjust the rate, which is what caused us to go from 25 to 30.

Bruce Bare agreed but recalled that at that time the Board set the rate and left it for the whole biennium. He'd like to see a more systematic approach.




Bruce Mackey addressed the Board stating that the 30 % rate was set due to a price decrease and the prediction of being \$15 million in the hole each year, when Doug came into office, with the passing of the sustainable harvest we had to invest, which meant we had to invest a year or two ahead; all these factors led to the 30%. The Board approved it because we demonstrated that there was a \$300 million increase with that investment. The numbers today reveal a substantial net increase for the investment even with a lower timber harvest. We are in a favorable position right now with increasing revenue and price increases. He recommends to the Board operating between 3 and 6 months as an operating balance. He agrees that they should address the Board every 6 months with two forecasts in order to give them time to react. Mr. Mackey suggested 28% based on the numbers today.

Jon Kaino asked if these figures assume a 100% appropriation spend down.

Bob Van Schoorl replied that they do not. He is projecting an ending fund balance of approximately \$18 million.

Bruce Bare stated that if these were the right numbers then we'd need a 26.3% minimum to get the 3-month balance.



Bruce Mackey replied saying that they could operate on the margin, then at 3 months when something happens there is no time to adjust. It take several months to put up a timber sale, a year to 18 months to harvest, which is a 2 year ability to change, yet prices can vary drastically. The flip side would be to operate with a full savings account but he isn't sure that this is prudent politically, or needed financially.

Jon Kaino stated that sometimes the county has to operate for four months before they get their first property tax payment, so there are times when the budget is sound but the cash flow can be limited.

Bruce Mackey explained the our cash flow comes from sold timber sales, where the cash comes in after the actual harvest 6 months to a year later.



Jon Kaino asked if there are months where the revenue is higher because of higher harvesting levels.

Bob Van Schoorl stated that he does have a couple property tax accounts that he has to closely monitor, but this account doesn't require that kind of monitoring.

Bruce Mackey said that the real problem comes when they face substantial changes in prices or volume. Then it becomes a trend line.

Bruce Bare suggested that this is a good reason to monitor this more closely allowing time to react.

Bruce Mackey agreed and would like to see a review every 6 months instead of quarterly.

Jon Kaino asked where the rate change would be applied, to future sales or sales from this point forward. He anticipates that if you only apply it to future sales the results wouldn't be seen for another 18 months.

Bob Van Schoorl stated that the forecast is based on both the sales and the revenue collection. When the revenue comes in the actual distribution will be based on what the rate is when we collect the dollars not at the time of the sale. This is taken into account and compensated for. He moved on to the FDA account, reviewing the operating appropriation. We have the authority to spend \$58 million dollars but the likelihood of us spending that is slim. We are more likely to recommend between \$48 and \$51 million of expenditures. He has watched this fund balance decline. He pointed out that with the 6-month minimum fund balance we would be below that by the end of next biennium. In that scenario, he would bring that to the Board to let them know that the Resolution is triggered. He shared a potential projection that would initiate a rate change.

Bruce Mackey asked what would happen if they chose to have a 3-month end balance.

Mr. Van Schoorl replied that whole dynamic would be changed if the Board chose to have a 3-month fund balance instead of 6-month; we could stay at 22 for another biennium.

Jon Kaino asked if the Board can make that decision in the FDA.

Mr. Van Schoorl replied that they can.

Bruce Bare asked if we would want to set up a policy for both the FDA and the RMCA if we go to the 6-month review.

Bruce Mackey said he would review both.

Chair Sutherland recommends that we don't need a policy but an opportunity to review this with the Board every 6 months, with the understanding that if there is a substantial shift we will bring it as soon as we could. Chair Sutherland requested a resolution rather than a formal policy.

Bruce Bare asked if they could go back a biennium or two to create a simulation of how the rate would have changed every 6 months.

Bob Van Schoorl stated that he would give that idea some thought.

Bruce Mackey asked if the Board wants them to refer to the intention of staying between a 3 and a 6-month operating balance in the resolution. He was considering referring to the FDA resolution, reviewing both the RMCA and FDA on a 6-month basis but putting some criterion that shows we are trying to keep the balance within 3 to 6-months and are adjusting it accordingly.

PUBLIC COMMENTS FOR GENERAL ITEMS OF INTEREST

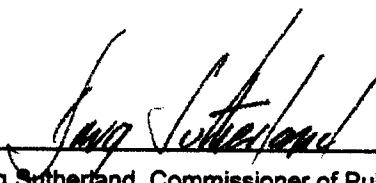
None

Commissioner Sutherland reminded the Board members that the light pack test will be held on May 30th. He also briefly reviewed the August Board retreat itinerary which will include visiting the Tripod fire.

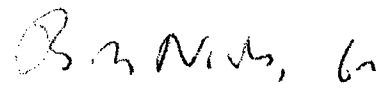
Bonita will make the public notice a couple weeks before the test.

Meeting adjourned at 2:46 p.m.

Approved this 5TH day of MAY, 2007



Doug Sutherland, Commissioner of Public Lands




Bob Nichols for Governor Christine Gregoire

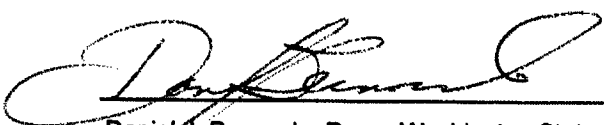
Terry Bergeson, Superintendent of Public Instruction



Jon C. Kaino, Commissioner, Pacific County



Bruce Bare, Dean, University of Washington



Daniel J. Bernardo, Dean, Washington State University

Attest:



Bonita Hill, Board Coordinator